

BAR Submission to Legco Economic Services Panel on Airport Privatization on January 31, 2005.

Airlines do not object in principle to the airport privatization, provided that the following 3 criteria are met: -

- 1/ that it is economical to operate at, both now and in the future
 - 2/ that service levels are acceptable
 - 3/ that a satisfactory regulatory process is being implemented.
- Number 3 is the most important of all as this is the only way to ensure the competitiveness of the airport and that fair and reasonable airport charges are implemented.

Airlines observe that the case as stated in para. 2 of the consultation document as not convincing for privatizing the airport, especially at this early stage of the airport's development. Firstly, the airport is already winning accolades for its efficiency. Secondly, airlines are concerned that the stated objective of strengthening the airport's market discipline could be used as justification for putting up airport charges in order to improve stock market valuation and return. HKIA is a strategic asset for the benefit of the people of HKG. It is our considered opinion that the overriding objective of HKG should be that of strengthening the HKIA's hub status and the ever improvement of its competitiveness. This will make the HKIA successful and HKG will benefit from its success. Putting up airport charges in this manner goes against the objective of protecting the HKIA hub status and maintaining its competitiveness.

Airlines disagree with EDLB's dual till model proposal in the setting of airport charges. This is contrary to ICAO policy and principles, contrary to accepted practices elsewhere around the world. Airlines believe that proven and successful experience of the BAA model should be drawn on. This model will have all aeronautical and commercial revenues and costs in a single till and we believe it is simpler, uncomplicated and overtly more equitable for all.

Airlines are also very concerned with the following: -

1. Low rate of return in 2002 as proposed by the government. This is entirely irrelevant. HKIA was barely 4 years old then and even now it is operating well below capacity. Return should be viewed over a much longer period of time.
2. Treatment of land formation cost (HK\$11b) - Land should not be considered in AAHK asset for 'rate of return' purpose.
3. In order to improve its rate of return so as to enhance valuation for the IPO, government claims that increases in airport charges will be inevitable. This is wrong. As stated, 2002 should not be used to assess its standard for rate of return. If the airport is allowed to grow and to mature in due course, its proven track record of profitable operation will certainly provide far superior rate of return. This in itself will be very attractive for potential investor without having resort to raises in airport charges. When HKIA grows and matures, its rate of return will be high and will remain high for years to come.
4. Conversely, if airport charges are raised, it will surely make HKIA uncompetitive. It is already more expensive than BKK, SEL, TPE and SIN. Higher charges will retard growth and this in turn will erode the hub status of HKIA. Higher charges logically will mean higher airfares to consumers. All of us in HKG will become losers.

In summary, airlines believe that privatization or not, the overriding objective of HKG is to ensure that HKIA is competitive so that it retains its hub status for the benefit of HKG. If privatization reduces HKIA's competitiveness by increasing charges, airlines seriously question the timing of the IPO so early in HKIA's economic life. The regulatory scheme for charges, post privatization, must take account of the contribution airlines make to the growth of commercial revenues. The scheme must also contain mechanism to ensure continuous productivity improvement of AAHK.

Thank you.